



Australian Government

Australian Wine and Brandy Corporation



grampiansWINE
Environmental Mud Map

Australian wine market outlook

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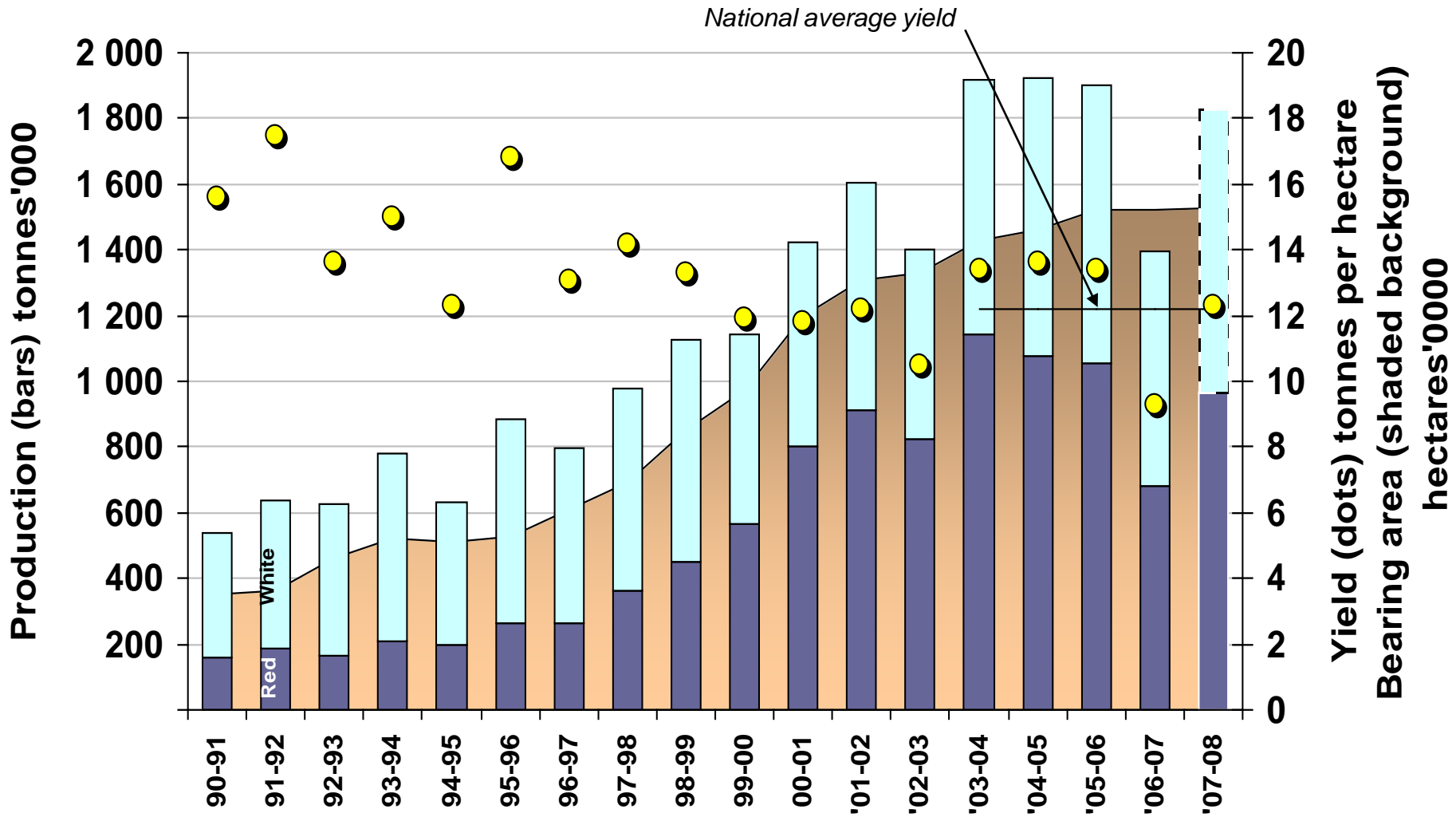


Presentation overview ...

1. Supply issues
2. Current sales performances
3. Structural adjustment?

Supply issues

Harvests 2005 to 2006 were three above-average seasons in a row, 2007 a 30-year low in yields per hectare, 2008 should have been less than 2007

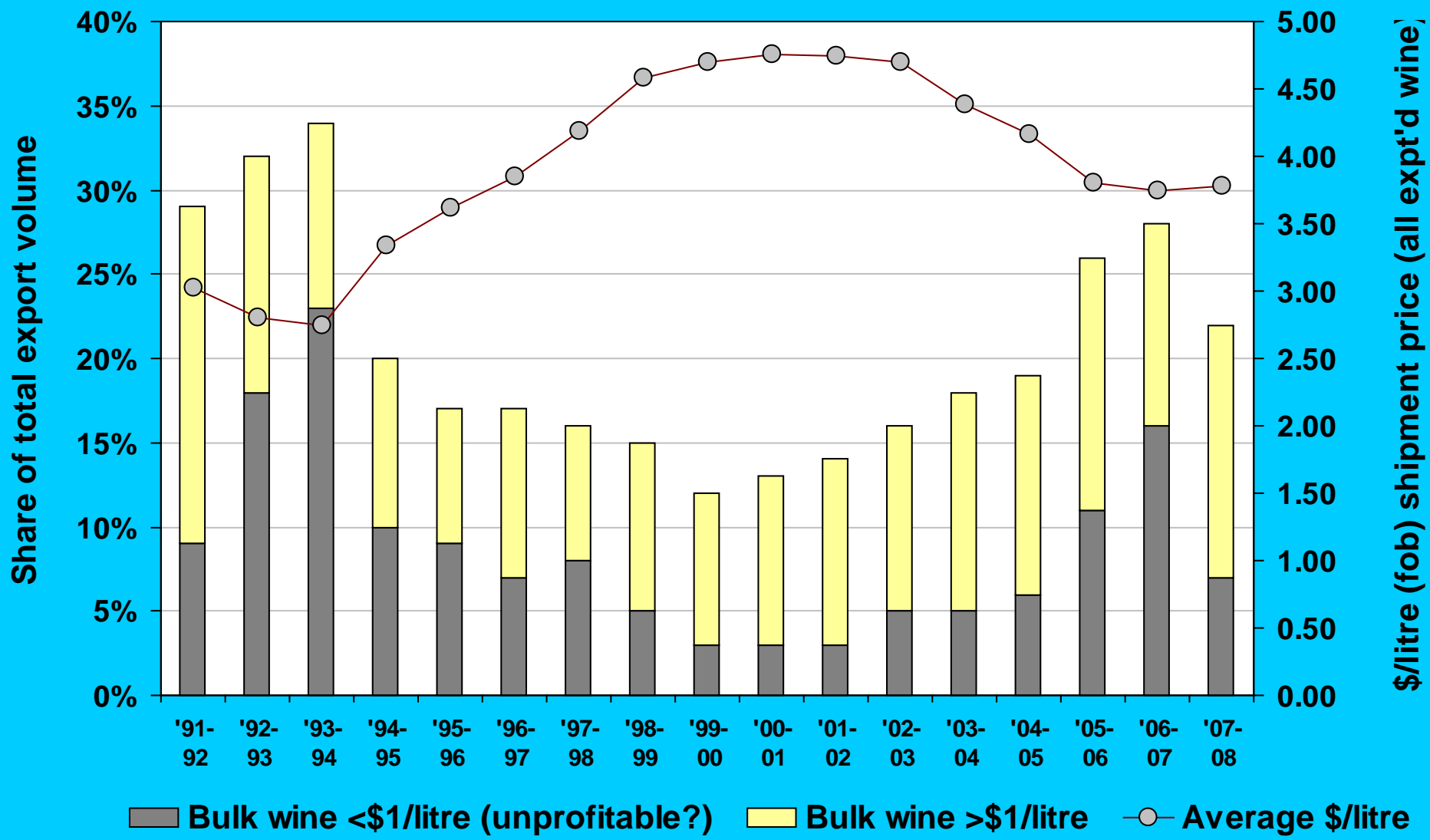


Note: yields in 2004-05 and 2005-06 include grapes left on the vine and dropped at harvest

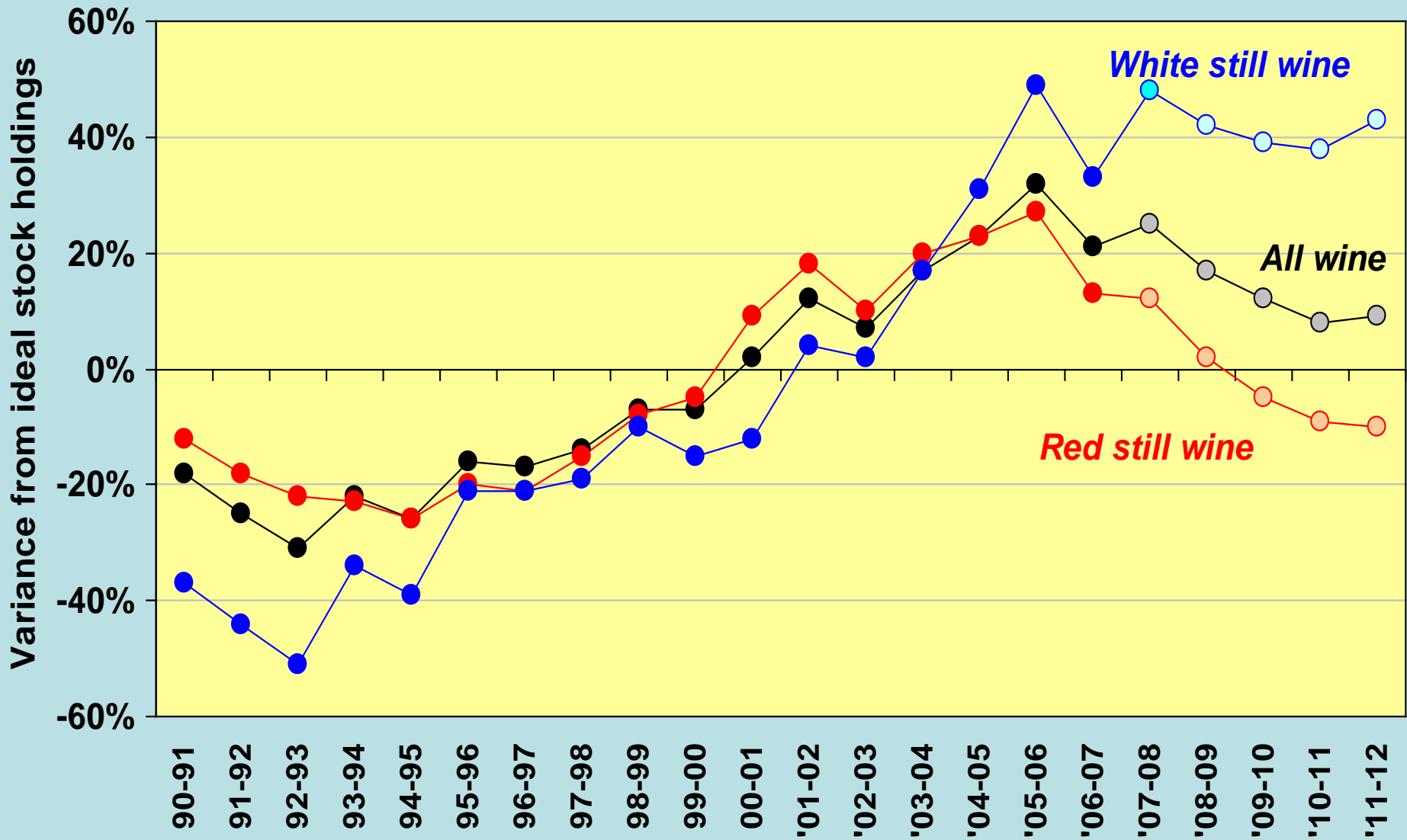
Why was 2008 bigger than expected (1.22mt >>1.83mt)? ...

- 60:40 warm-inland and cooler-climate generated
- Warm-inland
 - ... water purchasing, based on expected higher winegrape prices, raised tonnages beyond expected.
- Cooler-climate
 - ... no 2007 frost damage carry-over or 2008 drought effects, rather, a 'bounce-back' year.

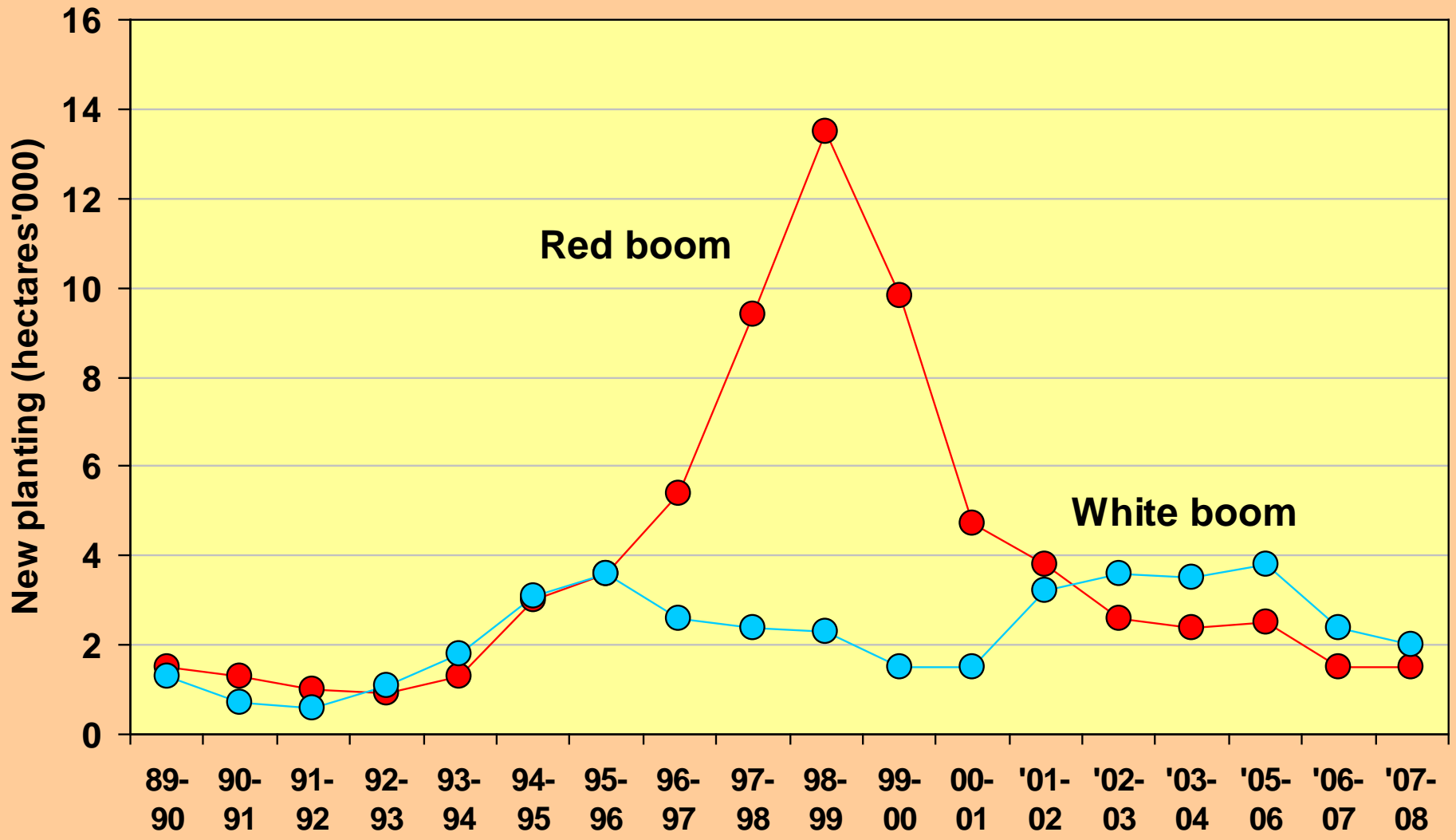
Evidence for an enduring stock surplus. Are stocks an asset or liability? A part of the answer is in whether they are red or white.



Whether surplus stock is an asset or liability depends on whether it is red or white ...



Within industry cycles there are red/white colour cycles ...

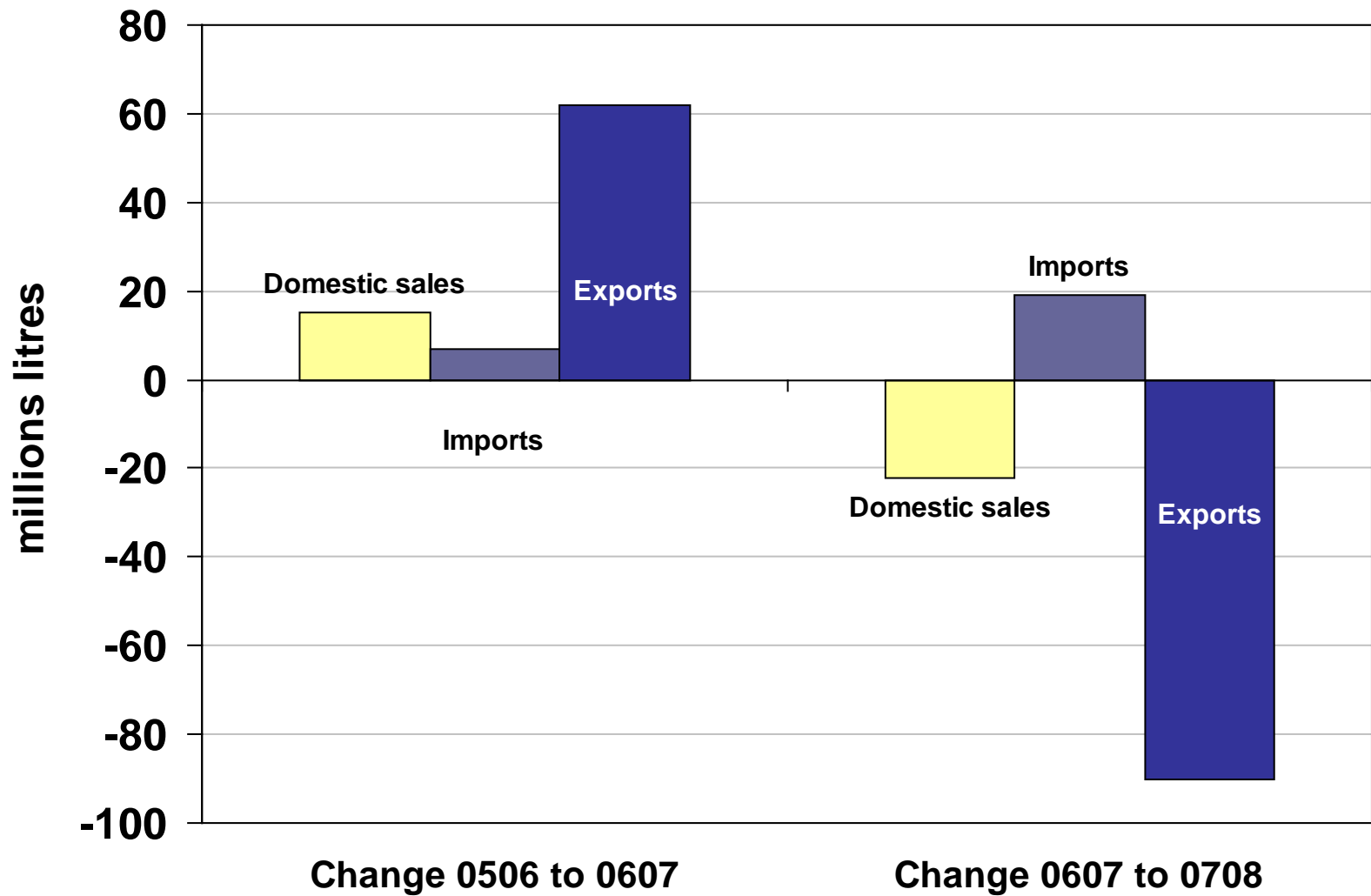


Sources: ABS Vineyard survey, AWBC estimates Notes: raw planting not accounting for vines removed from production and multipurpose varieties (Sultana and Muscat Gordo Blanco)

Current sales

- largely reflect heading back to 'balance' with some downward impetus from exchange rates

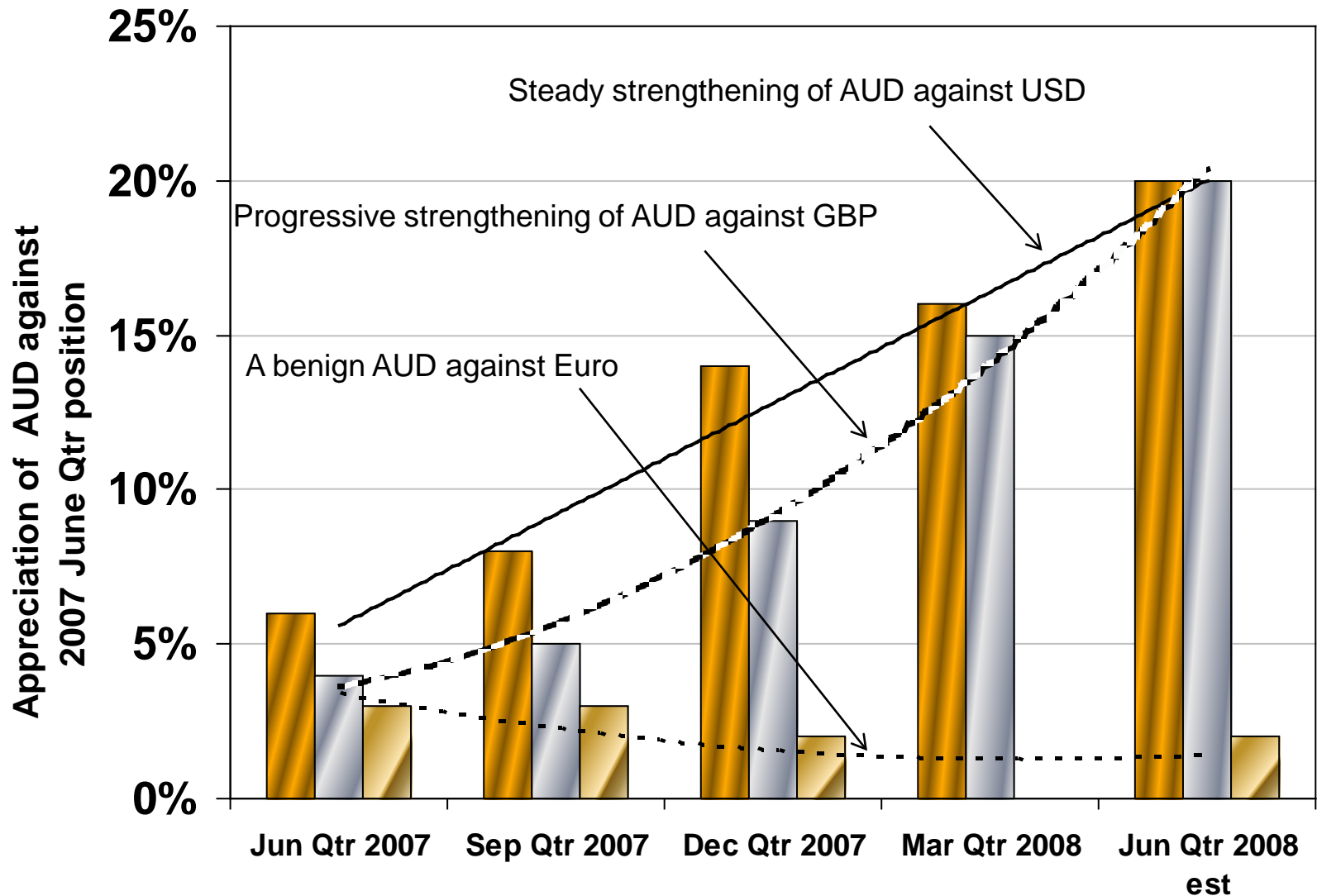
Exports fall as (or more) than expected, imports almost replace lost domestic sales ...



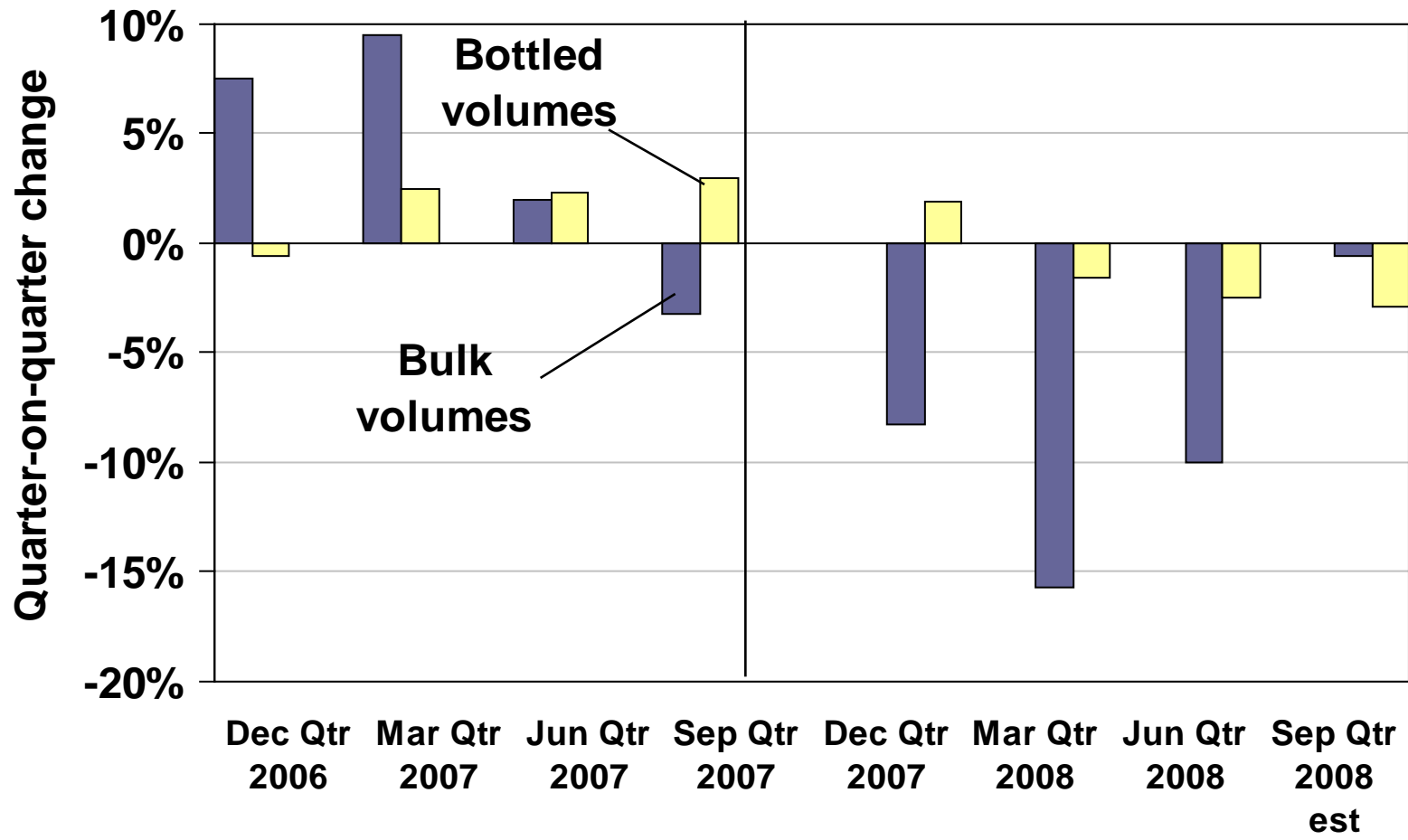
'Real' demand ...

- At the beginning of 2007-08, export volumes were around 800 million litres – something like 70 million litres of this was assessed to be unprofitable.
- Unprofitable sales are a way of dealing with surplus (and are not 'real' demand) – these sales were expected to evaporate as surpluses were drawn down.
- 'Real' demand was therefore assessed to be around 730 million litres.
- The final 2007-08 outcome was 702 million litres.
 - >> miscalculated the unprofitable portion or ER impact?

AUD - appreciated against the USD rapidly over 2007-08, GBP in a more leisurely manner but just as effectively, and is benign against the Euro ...



The less desirable, and more price-sensitive, bulk shipments drop away first but bottled shipments follow ...



■ Qtr on Qtr change in MAT bulk volumes
 ■ Qtr on Qtr change in MAT bottled volumes

Changed economic conditions are squeezing us out of lower price points in the UK (and other places) ...

Year	2007				2008			
	<£3		<£4		<£3		<£4	
Target price point	Sustain-able margins	Margin sacrifice required	Sustain-able for wine-makers	Margin sacrifice not required	Sustain-able margins	Margin sacrifice required	Sustain-able margins	Margin sacrifice required
Comment								
Margins								
Retail margin	40%	17%	40%		40%	17%	40%	31%
Winemaker margin	40%	16%	40%		40%	16%	40%	31%
Grapegrower margin	20%	20%	19%		14%	14%	-8%	-8%
Critical conditions								
Excise (£/litre)	1.78	1.78	1.78		1.94	1.94	1.94	1.94
ER (GBP/AUD)	0.41	0.41	0.41		0.45	0.45	0.45	0.45
Wgrape price (\$/t)	300	300	400		400	400	500	500
Retail shelf price	£3.81	£3.00	£3.92		£4.25	£3.34	£4.38	£4.00
		<i>Made it!</i>	<i>Yes!</i>			<i>No!</i>	<i>Yes!</i>	

The NOT Suzie slide ...



Structural adjustment?

The prime candidature for adjustment in production seems to fall on independent, warm-inland, white production but the adjustment will be shared

Warm-inland <i>(SA Riverland, NSW/Vic Murray Darling-Swan Hill, NSW Riverina)</i>	Cooler-climate <i>(Rest of Australia)</i>
If water has to be purchased and there is no room to move on retail price, the sustainability of this normally higher-margin fruit is threatened.	Lower margins threaten the viability of this fruit unless higher price points can be grown.
In a margin-squeezed operating environment, lower-priced wines traditionally sourced from these areas is becoming less sustainable for Australian producers in the market place.	Oversupplied compared to the market opportunity (an 80:20 market opportunity for WI:CC but a 60:40 production ratio).
Principal source of whites, particularly Chardonnay, which is oversupplied.	
Carries a greater production risk from climate change and associated symptoms.	
Alternative enterprises?	

Independent grape growers	Managed Investment schemes	Winemaker-owned vineyards
Concentrated in the warm-inland districts		More able to recognise the need for adjustment
Less viable operations due to scale.		More able to finance the adjustment
Roughly two-thirds of the production		

Based on the simple assumption that 0.34 million tonnes has to go, 16% of existing bearings areas need to be shed

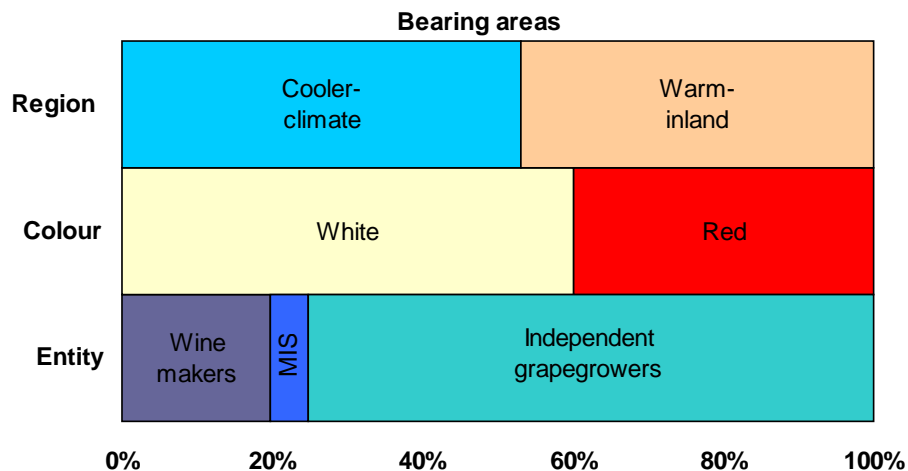
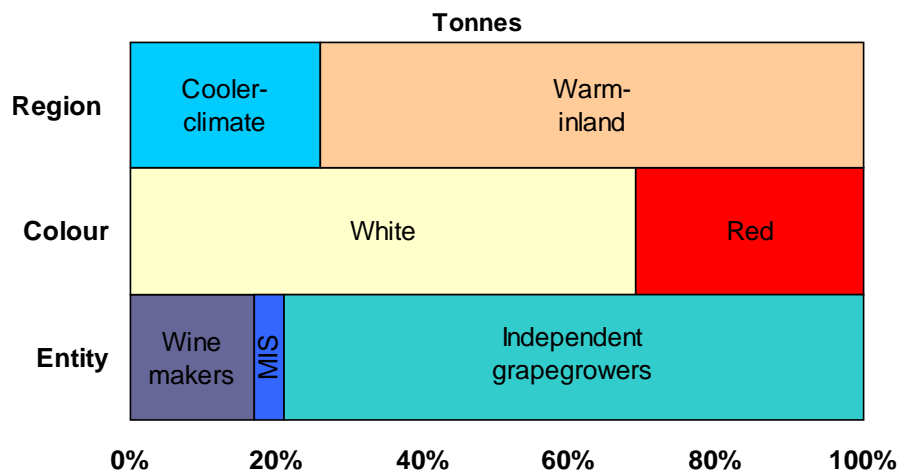
The assumption: 1.55 million tonnes is sustainable

The implication: 0.34 million tonnes has to go

A possible answer:

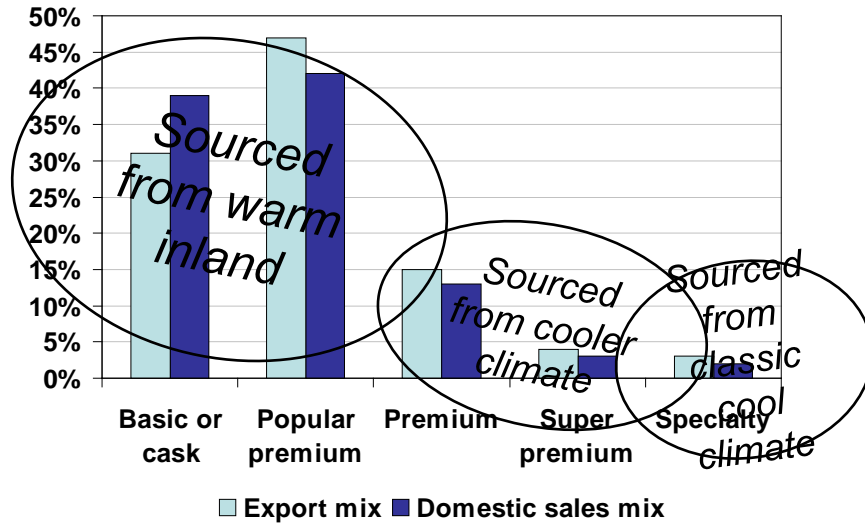
24 000 hectares (16% of existing bearing areas) needs to go.

The mix:

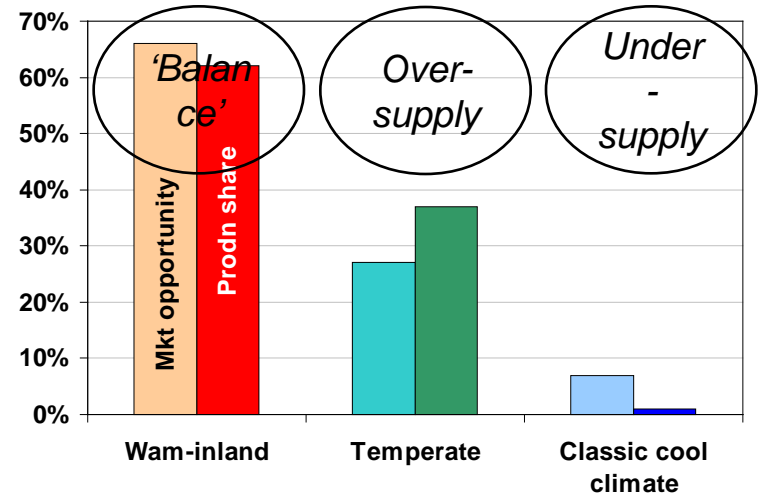
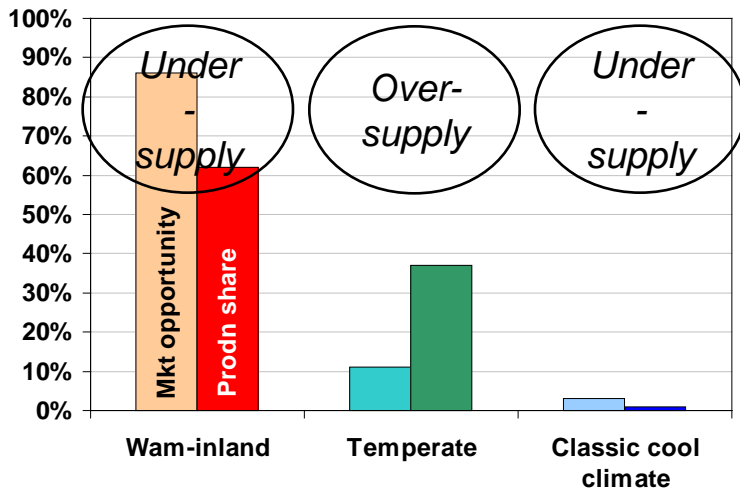
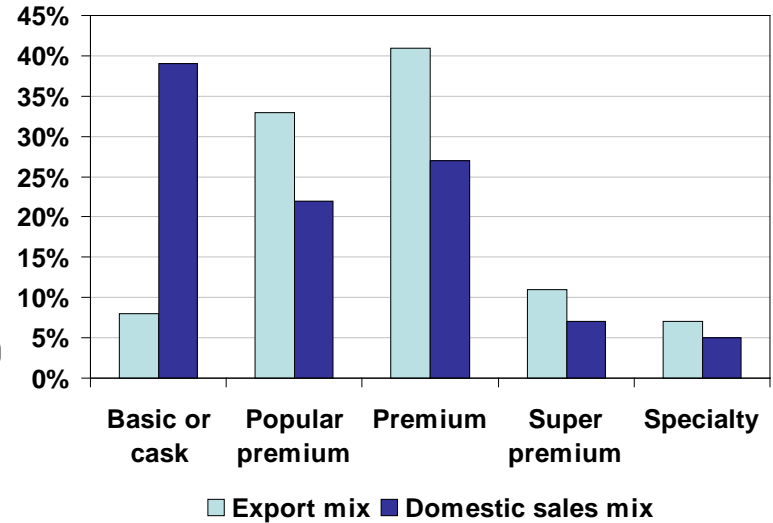


Current events may sort warm-inland imbalance but 'temperate' over-supply may be more enduring ...

Current status – 80:20 ~ 60:40



Let's suppose ...



Some concluding comments ...

- The Australian wine sector is in transition from a period of supply growth to value-building.
- There are a number of challenges facing it in this transition, that are beyond its control.
 - *Extraordinary seasons are making forward planning difficult.*
 - *Competition in overseas markets is intensifying, Australia is a leader but not the only nation excelling.*
 - *The strong Australian dollar is punishing wine exports.*
 - *Increasing costs are squeezing supply and consumer demand.*
 - *Poor economic performances are threatening the wine spend in some key markets.*
- Underlying everything is a successful national product in wine that is very competitive based on its characteristics and the best counter-measure to current economic adversity is to maintain quality and to effectively tell the Australian wine story.